



Chapter SRN01

Executive Summary

Chair's Foreword



Keith Lough, Chair

We face unprecedented challenges and demands for change. The region we serve is densely populated with unique water environments and more than 700 miles of coastline.

The South of England is already water-stressed and subject to drought risks. Climate change brings much greater volatility and intensity in our weather, which places additional strain on water resilience. Larger volumes of water and localised flooding challenge the capacity of our sewer networks as never before. Demand for water and wastewater services will grow as the population grows. At the same time, in Hampshire we have a legal duty to replace 30% of our water sources in the next five years to reduce abstraction from our chalk streams and protect the natural environment. Our communities have been very clear that they want resilient supplies of clean drinking water. They also want better environmental standards applied throughout the water cycle, backed by good regulation and by our collective ambition to improve key river and marine environments.

This combination of challenges and opportunities is, we believe, unique in the industry in its extent and, therefore, in the need for investment and for changes in the ways we deliver it.

We are continually improving our performance in dealing with wastewater and sewage. We are tackling shortcomings in past performance.

No dividends have been paid to external shareholders since 2017 and we have approached and will continue to approach executive pay with prudence. This plan does not ask our customers to pay again for enhancements they have paid for previously.

Our current investment plans, with significant support from our shareholders, will see us spend well beyond the financial allowances in our Ofwat Final Determinations and we will continue to make significant investment in strengthening the resilience of water supply and in reducing pollution. The Board is committed to its stewardship and to the completion of our Turnaround Plan, which lay the foundations for the further investment proposed in this plan.

Our plan for the next regulatory period sets an ambition beyond anything attempted by the company before. Both the Board and our customers are mindful of the significant delivery risks that this brings. The plans do not sit easily within Ofwat's standardised model, and we ask Ofwat to recognise the uniqueness of our situation; discussions will need to continue with regulators as to the final extent and timing of investments. The Board is also determined that we should take the time to test and learn from new nature-based and combined solutions. We need to do things differently for water resilience, for surface water management, for the environment and for customers and to remain agile as we learn. Taken together, this means that the proposed plan has a number of uncertainties that we expect to be further determined over the five-year investment period to 2030.

This is a plan sponsored by our customers and shareholders. We have listened carefully to customers about their priorities for investment and their views on affordability and assistance for those in vulnerable circumstances. Bills will need to increase substantially to fund the investment in this plan. More will be done for a wider group of vulnerable customers than ever before. The Board is pleased that our support will reach more customers in need than we originally targeted in AMP7.

The Board also needs to ensure sustainable access to new investment capital and we support the proposals to align expected returns to investors with the risks that this plan represents.

The Board has debated carefully what we can and cannot do in the period and taken our lead from our deep engagement with customers in deciding trade-offs. We support the testing and use of innovative alternative delivery mechanisms to achieve some of our plans. We will need to remain in discussion with our regulators as we progress through the investment period.

The Board endorses the plan and gives its support to the proposals contained in it. Our endorsement, reflected in the Board assurance statements which are necessarily qualified by the plan's inherent uncertainties, comes after reviewing extensive internal and external scrutiny and significant testing and challenge: have we fully addressed our key risks and our customers' ambitions; can they be delivered; are we laying foundations for a future in which water is valued as a scarce resource and critically, can the plan be sustainably funded by customers and shareholders?

Taken together, the Board believes that our plan is customer-led, affordable, supportive of the vulnerable, financeable and deliverable. It has water resilience, surface water management and the environment at its heart and delivers what our regulators, customers and stakeholders expect. We ask for their trust in allowing us to move forward and to continue their engagement with us as we deliver, so that our customers and our environment experience the major benefits that will follow.

CEO Introduction



Lawrence Gosden, CEO

We know that our past performance has not lived up to our customers' and our regulators' expectations. We acknowledge those failings and are doing everything we can to address them. In our published 2023–25 Turnaround Plan, I set out how we will deliver a short, sharp, ambitious performance improvement by 2025. That has been enabled by making huge changes to our business, improving transparency and embedding a new culture centred around a Code of Ethics that is driving our day-to-day decision-making. The £1.6 billion of new investment into our group by funds managed by Macquarie Asset Management has provided much needed financial stability. It has also supported a step-change in investment in operations and infrastructure by Southern Water of £1 billion above the 2020–25 regulatory allowance, which in turn underpins our performance improvement plan. We will invest equivalent to £1,500 per household over the period.

As a company we have had to rethink our role. We can no longer see our task as simply to provide clean water and to treat wastewater. We must take a leadership role through the whole water cycle as we seek to improve the environment. This approach is evident in our systems thinking across our business – in the Water Industry National Environment Plan, the Water Resources Management Plan and the Drainage and Wastewater Management Plan, as well as across carbon reduction and natural capital strategies. To this end we will work in partnership with government, local authorities, other public agencies, business and our communities.

This plan for 2025–30 and beyond builds on our transformational foundations. We have engaged in significant consultations with our customers as we prepared this plan and it is clear that as we rebuild trust and confidence through our focus on transparency and operational improvements, they rightly expect more of us. Of course, maintaining services is a priority for them. But there has been a real shift in expectations about the environment where our customers now demand much higher standards.

Our plan sees a near doubling of investment over the next five year period. It will deliver major improvements in water resilience, in the way we surface and treat wastewater and to customer service. It will produce significant improvements to the environment in our region, with its unique combination of coastline, bathing waters, chalk streams and diverse habitats.

Our engagement with customers has shown support, which we must continue to earn, for the scale and ambition of our plans. We recognise, however, that they involve significant bill increases. Water and wastewater charges have been comparatively low alongside many other English utilities and we know that increases will be hard at a time when the costs of living continue to rise. We will mitigate the effects by spreading increases over the regulatory period. We will extend our social tariff to nearly twice as many customers as are now eligible. We will increase our hardship fund fourfold. We will extend our Priority Services Register.

The issues we are tackling are long term and go beyond this five-year plan. We have looked out to 25 years and developed a core pathway and alternatives to respond to changes in the demands on us. We see this plan as the first step towards a 25-year plan.

We know there will be major challenges in delivering the plan, and its design has sought to balance ambition and affordability alongside those challenges. We will act efficiently and with purpose to carry this plan through to action. We know that this is right for our environment, for our communities, for our company, for our investors, and above all for our customers.

Finally, my dedicated colleagues from right across the business support our Turnaround Plan and our ambition for the future. I look forward to working alongside them all – scientists, engineers and industry professionals – to ensure we deliver for our customers and the environment.

1. Executive Summary

Our plan marks the next stage in the company's transformation

Our purpose remains constant:

We provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy – this is why we exist. It is our priority to ensure everyone has access to clean, safe and affordable water and effective and efficient wastewater services.

Our plan shows how we will secure our purpose over the five-year regulatory period 2025–2030 and looking beyond that to 2050. We will make a significant investment and take a leading role in securing water supply for future generations and protecting the environment.

We are building on improvements and investments made over the last two regulatory periods. We are committed to completion of our Turnaround Plan and are seeing real improvements in performance, supported by significant new investment, which will continue to the end of the

current regulatory period. These lay the foundations for our plan for the next five years and beyond.

As part of our environmental ambition, we have already set out our plans and begun to make progress toward reducing operational carbon emissions by 2030. Our plans expand on this and set us on a trajectory to reach our ambition of Net Zero by 2050, in-line with the Ofwat Strategic Priorities. These long-term plans include reducing process emissions, improving our self-generation capacity and using our biogas in new and innovative ways.

Our region faces profound challenges

We supply essential services to 4.7 million customers across dozens of diverse communities. Our region is home to major towns and cities, more than 700 miles of coastline, 84 bathing waters, 3,400km of river, and hundreds more environmentally significant sites. It also has some of the world's most iconic chalk streams – these are rare habitats for a diverse range of species and a crucial source of our drinking water.

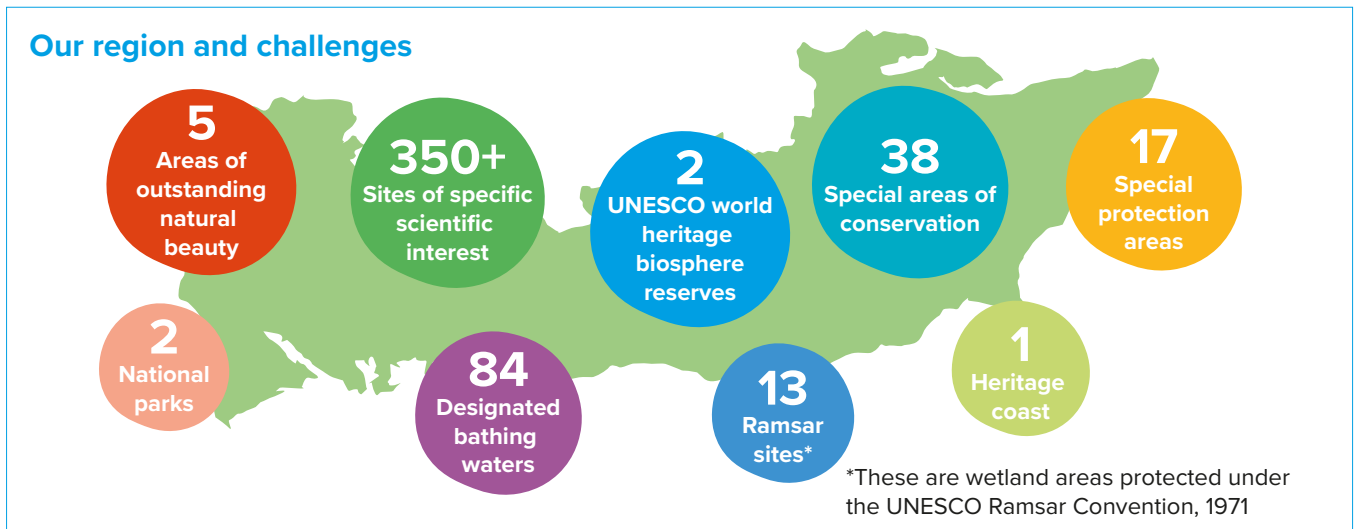


Figure 1: Our region and challenges

Water scarcity

- Our region is already water-stressed and will become more so
- In Hampshire we are going to reduce water abstraction from 181 million litres a day in 2024–25 to 132 million litres a day in 2049–50, of which almost all will be seen through reductions in the amount we abstract from the iconic Test and Itchen chalk streams
- We must be custodians of these fragile and precious habitats and ensure they are protected for future generations while providing longer-term solutions for more sustainable water supplies

Population growth

- We expect our region's population to grow by up to 25% by 2050
- More than 800,000 new homes will be connected to our wastewater networks by 2050. In some areas, new housing growth has already stalled because of the impact it could have on local waterbodies – both in terms of water removed through abstraction and the levels of nutrients from water treatment
- By 2050 we estimate that demand for water may have grown by 70 million litres a day from today's 440 million litres per day

Climate change

- Climate change will increase the demand for water. 2022 was the warmest year on record. This increased demand for water, at the same time as we had significantly lower than average winter rainfall
- Droughts will become more severe and frequent in the future, changing the shape and health of some of our most precious resources, including Hampshire's chalk streams
- Overall, climate change will also decrease the amount of water available in our environment by up to 55 million litres per day by 2050
- Increasing temperatures can also impact water quality, changing nutrient levels in rivers and streams – making treatment harder and more expensive. More intense storms can cause more pollutants to wash into waterbodies
- More frequent, more severe storms mean our networks and sites can become overwhelmed by rainfall, groundwater infiltration and flash flooding leading to flooding and pollution. Some of our sites are also vulnerable to power failures, caused by these storms

The patchwork of different water companies across our region has historically presented challenges in terms of the management of these resources. Through Water Resources South-East, we are better able to coordinate regional solutions and collaborate on their delivery. This includes working with Portsmouth Water on Havant Thicket reservoir, as well as with Thames and Affinity Water on new regional infrastructure.

Our customers expect us to maintain core services and to protect the environment

Over the past two years we have increased the quality and frequency of our regular customer engagement. More than 25,000 customers spent over 8,000 hours telling us what they think to enable us to develop our plan and we thank them for their valuable time and contribution. This included dozens of different audiences, segments and communities. Our panels of current and future customers, businesses and vulnerable communities gave us their views on our plans.

We have used this and other data from our listening to our customers to give us deep and unique insights. This has helped us define our long-term priorities, shape our ambition, and direct our investment programme.

Our customers' priorities are clear:

- We must maintain our core services – for customers this is the most important thing, especially maintaining a reliable supply of high-quality water
- We should significantly improve how we care for the environment – reducing pollution, storm overflow use and leakage are their highest priority areas for improvement
- We should be more ambitious in some areas such as storm overflows and leakage – but customers asked that we be less ambitious in other areas so we could focus on delivering their priorities
- We should use nature-based solutions first, wherever we can, before relying on traditional infrastructure. Customers understand that this is not always possible and want a balance
- We should address the root causes of problems, fixing things first time and being honest and transparent when things go wrong
- Our customers also tell us that they are willing to pay more for the right investments, and do not want us to pass the problem to future generations. However, the cost of living is hitting many customers hard and they tell us that we need to make sure we protect the most vulnerable from bill increases

We have shared our plan with customers. This in-depth testing shows that more than two-thirds of them think it is acceptable because it focuses on the things that matter most to them. However, we have to continue winning their trust to deliver it. Our plan sets out our determination to do so.

Our five-year plan provides for significant investment across our business and for the environment

Our plan for 2025 to 2030 is our biggest ever investment programme. At £7.8 billion overall (including retail), it is nearly twice the size of our previous programme and will deliver the single biggest enhancement investment in our environment – £3.3 billion – in our history, and one of the largest in the sector.

We will deliver significant, lasting improvements to our performance and environment. To ensure affordability, we will increase the support we provide for customers in the most vulnerable circumstances and make our services more accessible for all our customers.

Some improvements will be gradual. We will achieve them by improving how we work every day – finding and fixing more leaks, maintaining and upgrading our equipment, further improving the reliability of our assets, and investing in our people and their skills. This is our base plan.

Others require a step-change in our capabilities and capacity. This includes new ways of working, innovative technology, redesigning sewer networks, building new wastewater treatment works, creating new water supplies and upgrading our four largest water supply works. This is our enhancement plan.

Our long-term investment programmes strike the right balance between our customers' and communities' priorities, affordable bills and our ability to deliver. Each of our enhancement business cases explains how we've chosen the best option for customers.

The plan has three main areas of focus:

1. We will provide a reliable supply of high-quality water to our customers

This is a significant priority for our customers. We face severe shortages over the short and long term and must act now to address the issues.

Key priorities

- We will plan alongside our neighbouring water companies in the South-East
- We will upgrade our four largest water supply works and invest in new sources, like water recycling plants and a new reservoir to keep taps running now and in the future
- Recognising the technological limitations to repair leaks by traditional means, we will innovate to reduce leakage on our network. We will replace cast-iron with plastic pipes, we will install more than one million smart meters to help customers have a better understanding of how much they're using so they can save more, and we will develop asset management systems to support a data-driven approach to our water resource management
- We will safeguard our water resources by reducing the amount of water we take from the environment while making sure our customers have access to a supply of high-quality water

Key investment plans

- Overall, we will invest £3.4 billion on our water services between 2025–30, an increase of 90% over the 2020–25 period
- We will reduce the amount of water we take from the environment – by 50 million litres a day by 2030, a 10% reduction compared with 2022
- We will spend £320 million modernising our four largest water supply works benefitting 62% of our customers
- We will deliver more than 189 million litres per day of new capacity by 2035 through the construction of water recycling plants and new pipelines, 40% of average demand during 2022
- We will install more than one million smart meters, helping our customers save more water by providing tailored support and advice through our Target 100 programme
- We will also design and plan the longer-term infrastructure we need including a new reservoir, water recycling plants and transfers from other regions
- We will invest £517 million in leakage reduction activities, including mains replacement and smart metering. Already one of the leading companies with a water leakage rate of 17% today, this will reduce further to 13% by 2030 and our 25-year plan will see leakage fall to 10% by 2050. This will also reduce water supply interruptions



2. We will provide trusted and easy customer service

We want to support our customers with easy service and transparent communications that show we care for our communities. This means spending time with our customers to understand their needs and tailoring our services where we can.

Key priorities

- We will provide excellent end-to-end customer service
- We will improve how we respond if things go wrong. By talking to our customers after an event we will continuously improve how we respond and communicate with them, updating our processes, getting our people to the right places, and making our communications clearer
- We will better understand how customer priorities change over time through continuous engagement and face-to-face events
- We will play a bigger role in their communities by increasing our outreach and education programmes, supporting more charities, and providing more community spaces

- We will work closely with developers and our non-household retailers to improve their services, making it easier for them to connect to our networks. We are automating processes and will create regional hubs to give them a more personalised service with deep local knowledge

Key investment plans

- Overall, we will invest £348 million between 2025 and 2030 to provide trusted and easy-to-use customer services
- We will invest in a new customer relationship management and billing system – making our services more responsive, providing easier to access for all our customers and supporting real-time data from our smart meters to enable water-efficient choices
- Our smart metering, asset management capabilities and network support teams will improve the water and wastewater services our customers receive in their homes

3. We will protect and improve our environment, particularly our rivers and seas

Our customers have asked us to protect and improve our environment, focusing on our rivers and seas.

Key priorities

- We will reduce our use of our storm overflows at 179 sites including those located close to shellfish and bathing waters along our coastline
- We will reduce pollutions and bursts by installing new mains and upgrading our pumping stations and continuing to harness innovative technologies to improve monitoring of our networks
- We will improve water quality in 1,000km of river by upgrading our wastewater treatment works to meet tighter standards set out in the Environment Act and other regulations. We will remove more potentially harmful nutrients from wastewater, improve our treatment works compliance and work with partners to prevent pollution at source
- Where we can, we will use nature-based solutions first, such as reed beds, wetlands, and sustainable drainage systems. In some areas, to meet specific standards, we need to invest in more traditional solutions or use new technologies

Key investment plans

- Overall, we will invest £4.1 billion in our wastewater services between 2025 and 2030, an increase of 29% over the 2020–25 period
- We will invest £682 million to reduce our use of storm overflows across 179 priority sites by 40% compared with 2020 levels
- We will reduce overall pollution incidents by 50% and eliminate serious pollution incidents by installing new mains and increasing power resilience at our pumping stations and continuing to install monitors across our network
- We will also invest £600 million to upgrade 38 wastewater treatment sites to improve the recycling of wastewater to remove harmful nutrients and improve the quality of water we put back into the environment. This will help us accommodate over 60,000 new homes by 2030, including a new treatment works at Whitfield near Dover
- We are fully committed to statutory compliance. Our WINEP programmes have been phased over 8 years to balance affordability and deliverability. The final WINEP phasing will be concluded through the regulatory process to maintain full statutory compliance. Rephasing from 8 years to 5 years would add £100 to bills per household over the PR24 period

Our plan looks to the longer term and the investment which will be needed beyond 2030

Many of the challenges we face are long term and require appropriate planning and investment. We have looked beyond the next five-year investment period to 2050. We know that we will continue to face population growth, further pressure through climate change, and further restrictions on the amount of water we can abstract from rivers. We have modelled a number of scenarios about future demand and developed a core pathway and a set of alternative pathways. The key issues are about what we have to build and when, to preserve our environment for generations of customers to come. We have identified a number of issues which would trigger different pathways. We have also looked at some underlying assumptions in our wider economic and socio-political environment that could affect our plans.

Inevitably there are considerable uncertainties when we look so far ahead, but the broad trends of increasing demands are clear to see. It is an adaptive plan. It may change over time depending on the impacts of climate change and population growth – as well as how technology changes, the benefits of nature-based solutions and potential regulatory changes.

Our plan for the next five years is in effect the first stage of plans required for a 25-year time horizon. More detailed investment plans will be set out in future price review submissions, but the nature of the challenges we face and of the solutions to them is that they span across these regulatory periods. This will require us to have continuing dialogue with our regulators about how we manage not just for the next five years, but for the longer term.



Bills will rise to support this enhanced investment programme but so will our help to those in need

Since 2020, our customer bills reduced by around 6% per year because of performance penalties and bill rebates to repay our customers and communities for shortcomings between 2010 and 2015. From 2025, these reductions will no longer apply. Our investors, not our customers, have paid these and other amounts that have been required to remedy these shortcomings.

We also need to significantly increase how much we invest to improve performance, transform our services, and enhance our environment. By the end of 2030 our bills will need to increase to pay for this. Excluding the impact of the penalties and rebates, water bills will increase 69% and sewage bills 27%. For the combined water and sewage bill, this equates to an average increase of 44% between 2025 and 2030.

We have involved our customers in the development of our plan and they want us to invest to make improvements – but they expect us to make bills as affordable as possible and make sure we protect our customers in the most vulnerable of circumstances. We know that with cost of living increases and wider inflation this will be especially hard for some of our customers and we have given much thought to how we can support them in the most effective way.

We will maintain our social tariff discount at 45% and more than double the extent of our support. Up to 182,000 customers will benefit, compared to 123,000 today. We will also increase the value of our Hardship Fund from £250,000 annually to £1.25 million while increasing the number of customers we support through our capped tariff and debt matching schemes.

Alongside our financial support, we will expand the reach of our Priority Services Register from just over 8% to more than 20% of our customers. This means customers who need additional support will receive it.

We will also look to make more innovative tariffs and pricing structures, for example to incentivise saving water.

We have made our costs as efficient as possible. We are also committed to finding further efficiencies of 1% per year.

The plan is deliverable but carries risks

Our plan for 2025 to 2030 will see a doubling of our current investment programme. We know delivering investment at this scale and pace will be a challenge – and that our performance and delivery has not been where it needs to be.

Increased investment programmes across the water sector will lead to heightened demand on the supply chain. We will need to ensure careful co-ordination and

collaboration to ensure sufficient capacity and capability. We must also work hard to drive best value.

Our plans for the period include the use of more advanced solutions and technologies, which will require specialist skills. We will face challenges in attracting and retaining key people, from our field force to skilled environmental scientists, in a highly competitive region of the UK.

To address these challenges we will put in place four strategies

<p>Supply chain strategy: We are establishing strong relationships and agreements with suppliers ahead of the next investment period and we will complete procurement of our delivery partners early in 2024.</p>	<p>Portfolio execution plan: We have developed clear plans and priorities across the portfolio, aligning planning, delivery, and other business areas to ensure efficient execution and effective resource allocation.</p>
<p>Portfolio delivery and performance management: We are enhancing our programme management capability and capacity to track performance, implement the plans and oversee delivery.</p>	<p>Strategic workforce: We are committed to retaining, finding and training the right people. Strategic workforce planning will address capability gaps and ensure a skilled workforce is in place.</p>

The plan can be financed

We have assessed our plan and can confirm that it can be financed.

Our assessment is against the background that:

- The financial resilience of the company is improving, supported by equity injections into the group from our shareholders amounting to £1.65 billion in the current investment period. This provides a solid foundation for our operations and performance improvement through the Turnaround Plan and ensures that we can accelerate performance to meet the demands of our 2025–30 plan
- In this five-year period we have already invested £1.174 billion more than our regulatory allowance as part of our commitment to ongoing transformation. The company has not paid dividends to external shareholders since 2017
- Over £400 million of allowed returns, in the PR24 period, will be retained in the company to support the planned investments
- Our track record showcases our dedication to delivering long-term value for our customers.
- Key elements of our Water Industry National Environment Plan will need to be delivered over an eight-year period, rather than five

To help secure the plan we will use a number of alternative delivery strategies over the period and other methods of finance.

For the future, it is important that there continues to be a reasonable balance of risk and return which in turn incentivises investment and operational improvements into the sector, and limits shareholder reward if they are not met. The plan expresses our concern about the risk exposure in Ofwat’s methodology, as well as the proposed return. In the interests of customers, we are making some alternative and innovative proposals which will require support from Ofwat and continuing discussion with all of our regulators as the regulatory period progresses.

Overall, the plan will deliver required regulatory outcomes, improvements to service and improvements to the environment

The plan shows how we will meet targeted regulatory outcomes.

The plan gives us a clear pathway forward underpinned by an investment programme of unprecedented scale. We will deliver the plan, overcoming the major challenges it presents. It is what our customers are asking for. We believe that it will bring major benefits for future generations, for our customers, our stakeholders and for the environment.